

**MINUTES OF THE REGULAR MEETING
OF THE BOARD OF DIRECTORS
OF THE BETHLEHEM AUTHORITY**

APRIL 8, 2010

The regular meeting of the Board of Directors of the Bethlehem Authority was held on April 8, 2010 in Conference Room B504, 10 E. Church Street, Bethlehem, PA. The meeting was called to order at 3:30 PM by Chairman Mark Jobes, with the following in attendance:

Richard Master, Secretary
Vaughn Gower, Treasurer
James Broughal, Esq., Solicitor
Stephen Repasch, Executive Director
Sandra Reppert, Administrative Assistant
Daniel Meixell, Special Officer

Because some Board members have to leave early today, action items on the agenda will be taken care of first while there is a quorum.

APPROVAL OF MINUTES

Chairman Jobes presented the minutes from the regular meeting held March 11, 2010 as circulated. Mr. Master moved to approve the minutes. Mr. Gower seconded. Motion passed unanimously.

RECOGNITION OF VISITORS / COURTESY OF THE FLOOR

Mr. Jeff Andrews, City of Bethlehem, Superintendent of Water Supply and Treatment
Mr. Gene Auman, City of Bethlehem, Deputy Controller
Mr. Greg Fuller, Iberdrola Renewables
Mr. Dave Brong, City of Bethlehem, Director of Water and Sewer Resources
Mr. Terry Faul, Esq., King, Spry, Herman, Freund & Faul LLC, representing Delsea Energy

(It is noted that John Tallarico entered the meeting at 3:32 PM)

Greg Fuller said he came to today's meeting to restate his invitation to the Board to tour Iberdrola's Locust Ridge wind farm. Since the Authority is considering wind energy development, it would be beneficial to see an actual wind farm operation, and Locust Ridge is relatively close by. Chairman Jobes said two Board members and the Executive Director already toured Locust Ridge, and the others would like to make the time for a tour.

REPORT OF THE EXECUTIVE DIRECTOR

Stand 50 Timber Sale Proposal. Mr. Repasch reported that the Stand 50 (Starky's Swamp) Timber Sale had been bid several times with no proposals received. A few months ago the sale was bid with only one proposal received, which was rejected. The latest bid produced two proposals, one from Glatfelter Pulp Wood Co. (Glatfelter) for \$25,617 and one from Keith Walters & Sons Logging & Chipping Co. (Walters) for \$42,300. Mr. Repasch and the Authority's forester reviewed the proposals and prices. They both feel the proposal from Walters is fair and recommend the Authority accept the proposal and work toward a sales contract.

Chairman Jobes queried if the Authority has used Walters before. Mr. Repasch responded no, but Glatfelter uses Walters as a sub-contractor. In fact, Walters is cutting the Wild Creek plantation stand for Glatfelter, and they are doing a real good job.

Mr. Master queried if there are any expenses associated with the timber sale. Mr. Repasch responded no, only the solicitor's fees for reviewing contracts and such. Also, the Authority already contracted with an excavating firm to put in a road to cross over a culvert, lay culvert pipes and repair some of the logging road. The proposals submitted were based on any other road improvements being their responsibility.

Based on the Authority forester's recommendation, the significantly higher price and experience with the firm, Chairman Jobes moved to accept the proposal from Keith Walters and Sons Logging & Chipping Co. for the Stand 50 Timber Sale in the amount of \$42,300. Mr. Gower seconded. Motion passed unanimously.

Mr. Repasch said he will contact Walters to begin work on a timber sale contract.

Forestry Consultant Contract Ratification. Mr. Repasch reported that at the March meeting, the Board conditionally appointed a new consulting forester, Robin Wildermuth of Woodland Management Services, conditioned on negotiating an acceptable contract on the terms offered in his proposal. A contract has been reached and already signed. This action needs ratification.

Chairman Jobes commented that based on prior experiences, this will be a significant improvement in the forestry area. The Board is quite happy with Mr. Wildermuth's knowledge, talent and abilities.

Mr. Master moved to ratify the execution of the Forestry Consulting Contract with Woodland Management Services. Mr. Gower seconded. Motion passed unanimously.

NCC Indemnification Agreement Ratification. Mr. Repasch reported on a license and indemnification agreement with Northampton Community College for a storage trailer and operation of T-Mobile's antennas from it. Due to the rehab work being done to the water tank at Hecktown Road, T-Mobile had to remove their antennas and the Authority needed a portion of the college's property to store the trailer. The license agreement has already been agreed to by both parties and needs ratification.

Mr. Gower moved to ratify the License and Indemnification Agreement between the Authority and Northampton Community College. Mr. Tallarico seconded. Motion passed unanimously.

Consulting Engineer's Annual Report. Mr. Repasch reported that the draft Consulting Engineer's Annual Report was circulated to City staff and the Board for review. There were several edits and changes. Mr. Gower's comments regarding some capital projects were addressed, and Chairman Jobes would like the following changed:

Page 4: Change "budget" to "operations."

Page 20, Watershed Management Section: "The Authority is working with several agencies and organizations with a goal of developing a comprehensive Watershed Management Plan for both Watersheds and anticipates realizing this over the next two years, including forest certification."

Mr. Master queried the accuracy of the following on Page 4: "City Water Fund expenditures exceeded revenues in 2008 by \$1.191 million. The planned 2009 expenses equal expenditures." Shouldn't it be "equaled?"

Chairman Jobes said on Page 4, the second sentence of the second paragraph is not current. It should read "The 2009 operating expenses exceeded revenues by \$510,246."

Mr. Gower moved to accept the Consulting Engineer's Annual Report with the changes highlighted and discussed today. Mr. Tallarico seconded. Motion passed unanimously.

REPORT OF THE CONTROLLER

Mr. Filipos' report for the month ended March 31, 2010 was circulated and filed and accepted without comment. He could not attend today's meeting because of tax season deadlines.

Resolution 314 – Approval of Professional and Administrative Expenses. Chairman Jobes presented Resolution 314 to the Board for approval, which was circulated via email. The resolution totals \$195,287.46 and consists of the following:

- Requisition 303 - City's water capital invoice totaling \$167,025.23
- Professional and Administrative expenses totaling \$28,262.23

Mr. Gower moved to accept and approve Resolution 314 as presented. Mr. Tallarico seconded.

Chairman Jobes queried the SCADA system upgrade expense. Jeff Andrews responded the charges on the requisition are for approximately 90% of the work.

The motion to approve Resolution 314 passed unanimously.

BRIF CD Investment. Mr. Repasch reported on a Bond Redemption & Improvement Fund (BRIF) CD investment bid. The results were circulated via email with the recommendation to invest \$1.224 million with the Fulton Financial Inter-Affiliate CD Program for three months at .50%. Based upon the spending anticipated for the next three months, it is best not to invest for a longer period. By July or August, the City will most likely start drawing on the line of credit.

For information purposes, Chairman Jobs commented there was a higher yield product offered but it was not how the investment was bid. He suggested that next time, rates should be bid for a jumbo CD investment. Ms. Reppert said that can't be done because it is against the Authority's investment policy that states certain investments cannot exceed the FDIC limit of \$250,000 in any one financial institution.

Chairman Jobs said that the jumbo CD's are Act 72 collateralized, meaning the bank is guaranteeing the investment. But Mr. Repasch said the Board agreed to its current investment policy, which was adopted a year ago based on the recommendation of the financial advisor, PRAG, when banks were failing. Mr. Broughal suggested contacting PRAG for their thoughts on changing the policy.

Mr. Gower said he's happy with the policy as it is now and it's not time to change it. It is not about yield, but risk management and liquidity, which he presently believes in and will for a while.

Mr. Master queried the difference of yield between the two types of investments, which was said to be a ½ percent, and \$1,200 and \$2,100 for three and six months respectively. He, too, would like PRAG's opinion. There are a lot of monies in reserve -- \$8 million and \$2 million, but Mr. Gower said there are agreements in place for the \$8 million which does not fall under the investment policy.

Chairman Jobs would like Mr. Repasch to contact PRAG and ask if their opinion has changed.

Mr. Master moved to invest \$1.224 million with the Fulton Financial Inter-Affiliate CD Program for three months at .50% interest, as recommended and discussed today. Mr. Tallarico seconded. Mr. Gower voted aye. Chairman Jobs abstained.

Ms. Reppert told the Board she asked the trustee if there was a way to avoid wiring the funds back and forth since the investment was staying with the same bank, and the response was no.

REPORT OF THE CHAIRMAN

Wind Energy Developer Evaluation. Chairman Jobs said wind energy is a topic that will continually be discussed. To provide a little background information, the Authority hired Broadlands Financial as a consultant to evaluate the proposals received from Delsea Energy and Iberdrola Renewables. The Board asked for additional information after receiving Broadlands initial report, and a memo was circulated today by Mr. Repasch that provided an overview of a meeting that took place on Tuesday this week.

Mr. Gower spoke about Tuesday's meeting. Broadlands' assessment of Delsea and Iberdrola led to the realization that wind energy development is a long-term issue that this Board does not know everything about. A draft memo was completed today as a result of multiple discussions oriented around how wind energy development occurs and the market and issues it deals with. There is also a 12-page overview of development and fundamentals. To provide somewhat of an analogy, he said it's like the Bethlehem Authority is the wealthy landowner that doesn't want to actually do the work but wants to reap the benefits of the wind product that is produced on the land and gain royalties while hiring the most capable and responsible people to get the most money as possible from the developer. The overview identified five specific criteria to look for -- experience, financial strength or wherewithal, ability to finance construction, relationship with suppliers of the wind energy equipment and ability to sell wind energy and renewable energy credits. That is the criteria to use when evaluating wind developers. No conclusions have been made about a developer and Broadlands was asked to identify other developers who would fit this model. Three were identified. Two have not yet responded for reasons unknown and one, Acciona, a Spanish company, has expressed interest. He feels the Board is at the point of understanding enough to begin to move forward. A long period of time will pass before any wind production, and there will be a long process till operation occurs. Whoever is selected is a very important decision.

Mr. Master said he also participated in the meeting. According to the memo, a very good set of criteria has been established to evaluate the proposals. Having been a lawyer and recognizing this is a large transaction, the Board could be closely scrutinized or maybe taken to court if it would make an arbitrary decision not founded on a reasonable set of criteria related to success, security, and so on. He said Mr. Gower has done a very good job, as well as the others who have participated. He also said Broadlands is a reputable and knowledgeable firm. He feels the Board has done its due diligence, and as long as the criteria is applied fairly and objectively, it should fundamentally be insulated from any charges if a decision is made

Chairman Jobes queried if there is a next step or timeline for seeking more proposals and evaluating them. Mr. Gower responded not yet. The next steps need to be created. The only work in progress is waiting for a response from the two developers as to their interest. Mr. Repasch said it is expected to have an answer from them by next week, and if not the Authority will work with the three firms who are interested.

Chairman Jobes said Broadlands is working behind the scenes, and at some point in the near future all proposals will be evaluated using the established criteria. There will be a period of negotiation, where economic terms become important -- rent, upfront funds to help support any expenses the Authority might have, royalties and revenue stream.

(It is noted that Mr. Tallarico and Mr. Broughal left the meeting at 4 PM)

Working Woodlands Program Update. Chairman Jobes said this is another high priority topic The Board continues to work on. There was a sub-committee meeting with the Authority's new forester to familiarize him with this topic and to discuss concerns for potential issues that might arise. It was a very good meeting. The biggest concerns are the boundary lines and FSC certification and how they fit together. A memo was received today from our forester, who has determined that the boundary lines may not be as big an issue as previously thought. Chairman Jobes asked the Executive Director to elaborate.

Mr. Repasch said the new forester has done a lot of work in a short period of time. Robin Wildermuth provided a lot of information in his memo about his research on the Working Woodlands Program (WWP) and carbon credits. The memo also contains information that needs to be looked at more in-depth.

Highlights of the memo are the Stand 50 Timber Sale and the Wild Creek Plantation Timber Sale, which have already been discussed. Also, last week, he, Officer Meixell and Mr. Wildermuth checked out all the areas that have been boundary issues for some time and which need work in identifying. After walking the areas and providing mapping information, Mr. Wildermuth was able to estimate what he felt would satisfy the boundary issues. He could mark the three highest priority areas in three years at a cost of approximately \$2,000 per year. This is not a major issue and certainly within the budget.

Mr. Gower queried if this would solve the boundary issues, and assuming it was an adequate effort, would it satisfy FSC requirements. Mr. Repasch responded he had received information on FSC requirements and they are fairly general with no real specific criteria – to make sure there is a plan to identify and maintain boundaries, and address any trespass or encroachment issues that might exist. To further enhance this, he had a discussion with Mr. Brad Ellison, a state forester, who indicated the state has 2 million acres of forest that are FSC certified and probably 20% of the boundaries are not adequately maintained, yet the state has certification. Again, FSC certification criteria is not that stringent. Surveying will only be needed if there is a legal challenge to any of the boundaries. Boundaries are not a significant issue going forward.

Mr. Repasch said another issue is the cost of FSC certification. Mr. Ellison indicated the cost is a variable number based on tree inventory. Since the state has a good inventory in its forests, the per-acre cost basis is spread out over the 2 million acres, versus a few thousand acres for the Authority. The cost is variable depending on where the forests are and what kind of shape they are in. Some of the costs are \$30,000 to \$50,000 for data collection and the carbon trading market, \$25,000 to \$50,000 for the certification, \$20,000 for a forest management plan. It could roughly cost \$100,000 to do the job correctly.

Mr. Master commented that \$50,000 to \$100,000, including the boundary and prep work, is lower than what was previously estimated. Mr. Repasch said the cost still could be estimated at \$200,000 depending on the tree inventory, which is stringent for the carbon credits. The FSC certification is one thing; the inventory for carbon credits is another significant step. He feels it would be better to have a meeting to review all the information that was just received today.

Mr. Master queried if the Authority has to partner with The Nature Conservancy (TNC) for carbon credits. Mr. Repasch responded no, but Mr. Wildermuth's memo states: "There would be several benefits to FSC certification beyond the carbon credit markets. There is a growing demand for FSC certified wood, although this has been hard to translate into increased realization on stumpage sales. There will only be increasing interest in wood flow from FSC forests in the future. Also, the FSC certification along with the association with TNC would lend credibility to the ongoing forest management program." In essence, what that says is while the Authority does not have to partner with TNC and there are other organizations out there, there is not one organization that can do all of what the Authority is asking. It would end up in a situation similar to the wind energy evaluations, where certain aspects would have to be contracted or sub-contracted. The WWP is an integrated program with TNC and Blue Source, and the carbon credits are negotiable. The next

step is to meet with TNC again, and for them to answer the Authority's questions now that it is better educated on the issues.

Chairman Jobs commented on a related topic, where the Authority has asked its consulting engineer to look at the entire Watershed and identify parcels that may be needed for potential future water generation so that all the lands may not be utilized for the WWP. If there are parcels that are known not to be needed for water generation at any point in the foreseeable future, those parcels could be carved out and utilized for the program. He believes the other issue and concern with some Board members is the 60 year commitment. It is a long period of time and there is no crystal ball. The Board must evaluate this from all angles. To keep this progressing, the consulting engineer must do the work and then there can be more discussion and another sub-committee meeting.

Mr. Gower said he, Mr. Broughal and Mr. Repasch initially met to discuss this topic, and then there was another meeting that included Mr. Tallarico, Mr. Wildermuth, and Mr. Master. He queried if the full Board should meet next time. Chairman Jobs responded as many who want to be involved can participate. There are no decisions being made, just discussion and information gathering.

Mr. Gower said the lesson learned from before is it takes time to get everyone involved at the same time. In that regard, Chairman Jobs said if someone cannot participate in a meeting, then Mr. Repasch can provide a summary via email to keep everyone informed. He is interested in this and wants to be involved in it.

Mr. Master queried if there are other opportunities besides the WWP to venture into the carbon credits market? He would be like the Executive Director to investigate that. Mr. Repasch responded there probably will not be any apples to apples comparisons. He's heard that TNC packages everything together, but he can find out who else does various pieces.

Chairman Jobs said to be consistent, just as the wind energy development is being evaluated with a certain set of criteria, due diligence would be to have a set of criteria to evaluate this venture.

Fitch Rating Change. For informational purposes, Chairman Jobs said PRAG informed the Authority that one of the three rating agencies, Fitch Ratings (the others are Standard & Poors and Moodys), is proceeding to recalibrate its public finance credit ratings to make them more comparable across the board because of the very low default risk with municipality issues. State and local government, tax supported water and sewer, public power and distribution, public higher education sectors, have been upgraded one rating. While there is no immediate impact on the Authority, the financial plan is to restructure most of the debt in 2014, so the increased ratings could help lower the cost of borrowing at that time. Although this should have been done sooner, at this point it can only benefit the Authority.

REPORT OF THE EXECUTIVE DIRECTOR (Continued)

2nd Quarter 2010 Income/Expense Projection and Expense Budget Comparative.

Income and Expense Projection for the 2nd Quarter 2010:

- Cash on Hand at March 1 - \$432,140 in various accounts
- Revenues Receivable – \$97,025 for the 2nd Quarter.
- Total Projected Professional, Administrative and Police Expenses – \$98,215 overall for the 2nd Quarter.
- Total Projected Cash on Hand at the end of the 2nd Quarter – \$430,950.

Mr. Gower commented the only item out of the ordinary appears to be the cost of Broadlands' evaluation.

Expense Budget Comparative for the 3 months ended March 31:

- Professional Services – \$12,102, 6% of budget, and tracking very favorably.
- Security and Property Expenses – \$7,389, 24% of budget. These expenses are up due to the necessary road work for accessing Stand 50.
- Administrative Expenses – \$57,864, 24% of budget.
- Overall – \$77,355, 16% of budget.

Chairman Jobes queried if there are any outstanding invoices for professional services. He'd like to keep those expenses more current to enable more efficient tracking. Mr. Repasch responded that as far as the financial advisor fees, mostly all were related to the bond refinancing deal and those fees were paid out of that. Other financial advisor fees and expenses this year to date are minimal.

One last topic Mr. Repasch wanted to report on was yesterday after meeting with the Authority's forester, he attended the Tunkhannock Township Environmental Advisory Council (EAC) meeting to introduce himself and update them on the Authority's forest program in the township. The EAC members are appointed by the Township Supervisors, similar to Bethlehem's EAC. The members are people who are interesting in serving their government in an environmental capacity. They seem to be very well educated and had good questions that he appreciated answering. Also, Mr. Jim Davenport is on the Township's EAC. He was a former supervisor and was very involved in the Tunkhannock Creek Stream Designation petition and the Maple Tract sale. He always had high praises for the Authority. Mr. Repasch feels there will be a good working relationship with this group.

REPORT OF THE SOLICITOR

No report.

REPORT OF THE CONSULTING ENGINEER

Chairman Jobes said Neal Kern's monthly report was circulated via email, filed and accepted.

REPORT OF BETHLEHEM AUTHORITY SPECIAL POLICE

Officer Meixell's report was circulated via email, filed and accepted. He mentioned that with the weather changing and more people are outdoors again, he has been asked if the lookouts can be opened up again, which have been closed since 911. He does not support opening Wild Creek because the layout is not good for that. But Penn Forest is completely fenced in and gated. He doesn't see any security risk involved. Good public relations could be gained. Mr. Brong indicated the City will look into this. The dam structures are among the most sensitive of the secure area. Again, Officer Meixell said it would be worth considering the Penn Forest lookout only.

Chairman Jobes thanked Officer Meixell for all his efforts. He queried about the new Watershed Manager. Mr. Brong responded the new Chief Watershed Operator comes from Water Quality, has a master's degree in microbiology and is a certified water operator. He is very familiar with the area from taking water samples and is capable of managing the area.

WATER REPORT

The Water Report for the month of March 2010, as circulated and filed, indicates there was a lot of rain for the month and the reservoirs are at 98.38% capacity.

CITY OF BETHLEHEM DIRECTOR OF WATER AND SEWER RESOURCES

Mr. Dave Brong reported the following on the Water Fund as of March 31:

- Receipts are slightly under \$4 Million and approximately \$200,000 behind plan.
- Receivables continue to climb. The average in 2007 was \$1.1 million; to date in 2010, there is almost \$1.4 million. The water rate increase was 3.5%, but receivables increased 20%. This is impacting cash performance. The simple and effective collections policy is to shut off the water if the bill is not paid. Sometimes there are penalties involved. To date, \$25,000 in penalty revenue has been received, which is above expectations.
- Invoicings are \$4.3 million and approximately \$50,000 short of plan. When meters can't be read during the winter due to snow, the invoices are estimated. It is very possible that invoicings may not be short at all, once the meters are actually read again.
- Expenses are \$614,000 higher than plan, due exclusively to the fact that the City took the 2nd Quarter General Fund charges from the Water Fund in March instead of April, which amounted to \$685,000. Expenses would have been \$70,000 under plan had this not occurred, so this is nothing to be too concerned about.
- Cash on hand is \$925,000 against plan of \$1.74 million, again due to General Fund charges taken in March. Had that not occurred, cash on hand would have been \$1.61 million or \$130,000 short of plan.

In trying to do whatever possible, his departments have looked at the inventories and have an active salvage program in place that should produce six figure revenues by the end of the year. Another initiative in place is an aggressive stop meter program. There are about 35,000 meters that just stop for mechanical reasons or other. They have collected over \$10,000 in back-billings with the program to date.

From a spending standpoint, there has been very significant progress made on an initiative. On a combined utility basis – water and sewer – the City spends almost \$1 million in chemicals for pre-treatment, disinfection, fluoride, corrosion inhibitor, coagulants for treatment, etc. A survey was conducted at the end of 2009, and they worked very closely with suppliers in the industry and evaluated the pricing and buying environment. The City was part of the Lehigh Valley Cooperative Purchasing Council. The City's purchases were aggregated with smaller utilities in the area, and were bid to suppliers in the industry with the lowest bidder used. Bethlehem was the "big guy" in this consortium. The smaller utilities were riding on the coat tails and influencing the pricing that the City was paying for decades. It was decided to test this initiative and the City is actually reducing its 2010 chemical expenses by \$150,000 from 2009. The fact that the City is on its own and not with the co-op is a big deal.

Mr. Gower queried if the remaining co-op members continue to pay last year's prices. Mr. Brong responded no, the chemicals were re-bid this year, and the City out-performed the co-op pricing by \$30,000. It was like the City was subsidizing the smaller utilities and that's not the City's business. The City, for all intents and purposes, takes bulk delivery.

Mr. Master commented that the co-op negatively impacted the City and Mr. Gower added proving that disadvantage was key. Mr. Repasch added that when he was with the Lehigh County Authority, there were eight to ten different sites where chlorine was delivered at the same price the City paid for only one delivery site. People think that aggregating purchasing power is a good thing, but it is not always the case.

Capital Project Updates.

- Crews are on site and in the process of removing the interior finish of the 5MG Northeast Standpipe. This particular tank is most insidious. It has large external finish failure that looks bad and the rust is very visible. This tank should be back on-line in early to mid June. Immediately upon completion of that tank, work on the South Mountain 0.5MG tank will begin.
- There is an engineering contract underway for the replacement of the hyperlon cover for the 12MG reservoir behind St. Lukes Hospital.
- Barry Isett is working on some of the valve and infrastructure replacement and complete re-design of the Pennsylvania Avenue pumping station.
- The City has spent and will continue to spend money on the SCADA system upgrade. It is necessitated by the end of the life of the components. It is hoped to realize 15 years from the new components.

OTHER BUSINESS

None.

COURTESY OF THE FLOOR

Gene Auman thanked Mr. Brong and his staff for going out on their own for the purchasing of the chemicals. There was a lot of work involved with the suppliers to the City's benefit.

NEXT MEETING DATE

Chairman Jobes announced the next meeting is scheduled for May 13, 2010 at 3:30 PM. Please advise of any conflicts.

ADJOURNMENT

There being no further business, Mr. Master moved to adjourn the meeting. Mr. Gower seconded. The motion passed unanimously and the meeting adjourned at 4:45 PM.

Richard L. Master, Secretary